

**BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF CALIFORNIA**



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Program Coordination and Integration in Electric Utility  
Resource Planning.

Rulemaking 04-04-003  
(Filed April 1, 2004)  
(QF Issues)

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Applications of Short-Run And Long-Run Avoided Costs,  
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**COMMENTS OF INDEPENDENT ENERGY PRODUCERS ASSOCIATION ON THE  
ALTERNATE PROPOSED DECISION ON FUTURE POLICY  
AND PRICING FOR QUALIFYING FACILITIES**

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September 10, 2007

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Pursuant to Rule 14.3 of the California Public Utilities Commission's (Commission) Rules of Practice and Procedure, the Independent Energy Producers Association (IEP) respectfully submits these comments on the alternate proposed decision (Alternate PD) (mailed August 20, 2007) in the captioned matter. The Alternate PD does a superior job of addressing the issues and testimony presented in the proceedings below, weighing the evidence and explaining its findings and conclusions. Although IEP offers two suggested, minor, modifications for consideration, it otherwise recommends that the Alternate PD be approved.

**COMMENTS**

In comments on the prior Proposed Decision<sup>1</sup>, IEP criticized what it regarded as an inadequate discussion of the evidence, particularly with regard to the reliance on NP 15 / SP 15

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<sup>1</sup> Proposed Decision of ALJ Halligan ("*Opinion on Future Policy and Pricing for Qualifying Facilities*"), mailed April 24, 2007.

market data in determining short-run avoided energy cost (SRAC).<sup>2</sup> The Alternate PD remedies this deficiency by addressing in appropriate detail the evidence against such reliance and concluding that it would not be appropriate to base SRAC solely on the NP 15 / SP 15 markets. Instead, the Alternate PD adopts a hybrid methodology that blends a market basis with the current formula basis for determining SRAC. This result recognizes a role for both the market and formula approach; it is rational, equitable and, most importantly, the result of due consideration and appropriate weighing of the evidence.

The Alternate PD obviously deals with a number of important issues beyond the seminal question of the role of markets in determining SRAC. IEP suggests minor modifications in two areas, as discussed below.

**A. A 12-Month Rolling Average of Forward Market Prices Should Be Used to Calculate the Market Heat Rate.**

The Alternate PD uses a rolling average of forward market prices in its determination of the market heat rate component of SRAC. The Alternate PD explains that reliance on forward prices, rather than historical prices, balances the interest in greater reliance on market prices, on the one hand, with recognized failures in existing markets, on the other. This balance reflects superb attention to evidentiary detail and should be approved.

IEP believes, however, that use of a 24-month forward look, as proposed, is probably unnecessary and may diminish the integrity of the use of forward prices in the out-months of the second year of data. The Alternate PD notes the expression of some concern that very-long-term forward data may not reflect a sufficiently liquid and robust market. IEP suggests reliance instead on a 12-month rolling average of forward market prices as the better balance of interests.

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<sup>2</sup> *Comments Of Independent Energy Producers Association On The Proposed Decision On Future Policy And Pricing For Qualifying Facilities*, R.04-04-003/R.04-04-025 (May 25, 2007)

A 12-month look-ahead is clearly the minimum period that will capture institutional price variations based on annual seasonality and negate any relevance of heat rate collars, but is not so long as to invite concern over the integrity of the market data.

**B. TOU/TOD Factors Should Be Updated to Correspond With MPR Values.**

The Alternate PD recites correctly that it is appropriate to periodically update time-of-use factors used in the SRAC calculation; it also suggests that these factors are outdated. Citing the absence of a sufficient showing for doing so, however, the Alternate PD proposes to consider updating of the factors in an appropriate proceeding.

IEP suggests that this proceeding is the appropriate proceeding to update TOU factors and that an adequate basis exists for doing so. Specifically, TOU factors have previously been approved for use in determining the Market Price Referent applicable in the utilities' RPS solicitations. The Commission also, in that context, considered whether to apply the revised TOU factors for purposes of the MPR to QF pricing. The Commission declined to do so on the basis that the question is more properly addressed in this proceeding.<sup>3</sup> IEP sees good reason to instill consistency in the application of TOU factors and no reason not to do so. This could be handled by a direct order or adding MPR-consistent TOU updating to the agenda for implementation workshops in this matter.

**CONCLUSION**

The Alternate PD should be approved with the minor modifications recommended above. The Alternate PD addresses in appropriate detail the evidence for and against reliance on market-based SRAC pricing and concludes correctly that it would not be appropriate to base SRAC

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<sup>3</sup> D.05-12-042, mimeo at n. 32.

solely on the NP 15 / SP 15 markets. Instead, the Alternate PD adopts a hybrid methodology that blends a market basis with the current formula basis for determining SRAC. This result recognizes a role for both the market and formula approach; it is rational, equitable and, most importantly, the result of due consideration and appropriate weighing of the evidence.

Modification of the use of forward markets to a 12-month rolling average, and updating of TOU factors to be consistent with their use in the MPR should be approved as minor, but important, improvements to the decision.

Dated: September 10, 2007

Respectfully submitted,

/s/

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### Certificate of Service

I hereby certify that I have this day served a copy of “Comments Of Independent Energy Producers Association On The Alternate Proposed Decision On Future Policy And Pricing For Qualifying Facilities” on all known parties to R.04-04-025 and R.04-04-003 (List QF Issues) by transmitting an e-mail message with the document attached to each party named in the official service list. Parties without e-mail addresses were mailed a properly addressed copy by first-class mail with postage prepaid.

Executed on September 10, 2007 at Sacramento, California

\_\_\_\_\_/s/\_\_\_\_

Eric Janssen

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